



INTERNAL AUDIT CONTROLS EVALUATION ECONOMIC DEVELOPMENT

June 4, 2001

Roanoke City Council Audit Committee
Roanoke, Virginia

We have completed an audit of the Department of Economic Development. The audit was performed in accordance with government auditing standards.

BACKGROUND

The Department of Economic Development is primarily responsible for recruiting and retaining businesses for the City of Roanoke. Their budget for fiscal year 2001 is approximately \$580,000. The office serves as an ombudsman for business concerns, works with existing businesses to facilitate expansion and prevent closings, monitors enterprise zone requirements, promotes tourism, conducts business and personal development seminars, and maintains city demographics and statistical data for the City's web site. The Department of Economic Development is in the process of developing a Business Retention and Expansion program for the City of Roanoke. The purpose of the program is to promote economic growth. Local businesses identify and rate the City on various issues. Business attraction efforts are less likely to be successful if existing businesses are unhappy.

The department has seven budgeted positions: the Director of Economic Development, a Special Projects Coordinator, an Economic Development Administrator, three Economic Development Specialists, and an Executive Secretary. The Director of Economic Development started in August 2000 and five of the remaining six positions began their employment in 2000 and 2001.

The City of Roanoke has two enterprise zones: Enterprise Zone One and Enterprise Zone Two. Enterprise Zone One was established in January 1984 and is centered along the downtown railway. Enterprise Zone Two was established in 1996 and includes parts of Hollins Road North, the Roanoke Centre for Industry and Technology, Statesman Industrial Park, and the west side of Interstate 581 across from the Roanoke Regional Airport. Businesses located within the boundaries of any local enterprise zone may qualify for local and state incentives.

In order for the City of Roanoke to be a part of the Virginia Enterprise Zone Program, the City must offer incentives to local businesses. The Enterprise Zone Administrator submits an annual report for each enterprise zone to the Virginia Department of Housing and Community Development for the purpose of monitoring and evaluating the incentive programs. The Enterprise Zone Administrator prepares the report for the Department of Economic Development and reviews and processes the local incentive applications.

In addition to the rebates businesses in the local enterprise zones receive, the City of Roanoke can offer other incentives for businesses to locate within the city. This would entail structuring a performance agreement and approval by City Council. After the approval, the Economic

Development Department is responsible for monitoring the compliance of the performance agreement.

METHODOLOGY

We conducted a survey on the Department of Economic Development to obtain an overview of its activities. The Director of Economic Development completed a basic information form prepared by Municipal Auditing. To gain a better understanding of the Department of Economic Development's operations we reviewed the department's budget, job descriptions, talked to the staff and management and observed their work. Based on the information collected, we established the scope of the audit.

SCOPE

We audited the administration of the enterprise zone program, reviewed the status of the department's implementation of procedures for administering performance agreements, and the utilization of their information system, ED Track.

RESULTS

During our evaluation of controls, we identified the following:

Finding 01

Staff responsibilities are not documented and are not clearly defined for administering the Enterprise Zone Program.

Recommendation 01

Management and staff should review all aspects of the enterprise program and develop a coherent methodology for administering the program.

Management's Response 01

The Department of Economic Development is currently in the process of preparing its Strategic Business Plan. A component of the Plan will include administering the Enterprise Zone (EZ) Program. As part of administering the EZ program, a timeline will be developed for when reports are due, marketing initiatives and evaluating program effectiveness. Currently there are regulations regarding what businesses need to do to apply for EZ programs. These need to be reviewed and a timeline established for staff follow-up. A notebook will be developed by the staff to aid future staff in understanding the EZ programs and administering those programs in a timely and efficient manner. The notebook/guide will be prepared by July 31, 2001.

Finding 02

Incentives designed to attract businesses to the zones are not being utilized. The real estate tax exemption is the only incentive significantly used of the 13 available incentives.

Recommendation 02

Management and staff should develop procedures for administering the enterprise zones, including the evaluation and timely revision of incentives. Procedures should address the need for timely and meaningful data for monitoring the effectiveness of incentives.

Management's Response 02

Currently the enterprise zone incentives are listed on the department's web site and our economic development partners are made aware of the Enterprise Zone incentives. The Director of Economic Development and staff are currently reviewing and evaluating existing programs to determine several key factors including program use and market reach. The staff has already contacted the Virginia Department of Housing and Community Development regarding the fact that some of the incentives listed in our plan are not used. With guidance from the state, the staff plans to review each incentive thoroughly to determine its usefulness and make a recommendation to City Council later in the year as to what incentives should be retained and which should be eliminated and possibly recommending new programs. Once the City Council adopts the new local incentive policy, a marketing campaign will be developed to communicate the incentives to existing businesses and other potential beneficiaries. It is hoped that the evaluation can be completed by August 31, 2001 and new incentives implemented by December 31, 2001. Changing the local incentives requires an amendment, which needs to be approved by the state. In addition, the staff has submitted annual reports to the State of Virginia as required under state law and will continue to do so. While there is no formal marketing plan for the Enterprise Zone incentives, the staff is in the process of writing a Marketing Plan for the Department which will include the Enterprise Zone Program. A timeline for implementing all of the internal marketing initiatives will be included in the plan.

Finding 03

Information regarding project activity, project status, contacts, performance agreements, and other critical information are not documented in a consistent manner. Most of the department's data exists in paper records only and is not available in an electronic format that would allow satisfactory access, analysis, and reporting.

Recommendation 03

The Department of Economic Development staff and management should develop objectives and user requirements for an information system. Department of Economic Development should then evaluate the capability of the ED Track System to satisfy their objectives and requirements identified. The Department of Technology should be consulted before moving ahead with development or purchase of a new system. Formal procedures for using the information system should be developed concurrently with development of the system. The procedures should be documented and in place when the system is implemented and ready for use.

Management's Response 03

The Department of Economic Development is currently in the process of evaluating the best software to undertake a comprehensive Business Retention and Expansion Program. As part of this evaluation, the staff will also consider how to handle existing records regarding Performance Agreements and other information on project activities and status. A decision on which software will best meet our needs will be made jointly by the Economic Development staff and the City's Department of Technology. It is anticipated this decision will be made by June 30, 2001 and implemented by August 31, 2001.

CONCLUSION

In our opinion, the design and operation of the internal control system for the Department of Economic Development is not adequate to ensure the department's goals and objectives are met.

We would like to thank the Economic Development's staff members for their cooperation during the audit.

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